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THE MAGAZINE FOR GROWING COMPANIES

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THE METRO REPORT
The Fastest-Growing U.S. Cities
PAGE 50

LOCKED OUT

How Tim Wagner Lost the Company He Had Made an Overnight Success

PAGE 68

Star Wars Inc. A $19-Billion Growth Industry

PAGE 42

The Serious Business Behind Joke Products

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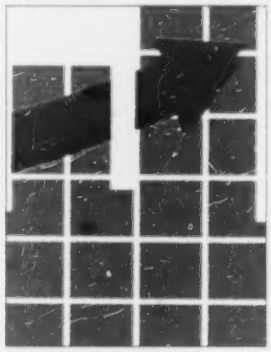

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Facing the difficult task of selling the company

COVER PHOTOGRAPH
by
Louis Bencze

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METRO REPORT

HOT SPOTS

INC.'s list of the 50 fastest-growing U.S. cities

The United States in 1987 is in the midst of a dramatic deconcentration in the structure of its economy. Much has already been written about the shrinking of the nation's big corporations and the rising importance of small and midsize companies in generating jobs and economic growth. And what is true of the economy is now reflected in the political economy as well—in the declining importance of the largest cities in favor of regional metropolitan areas and small cities in the newly prosperous South and West.

To plot more precisely the direction of this trend and better calculate the slope of its curve, INC. ranked every metropolitan area in the United States according to three growth criteria: significant new start-up companies as a percentage of the business census; percentage of start-ups experiencing high growth; and overall growth in employment. The lists of the top 50 cities—along with the 20 cities in the cellar—appear on the following pages.

What conclusions can reasonably be drawn from these rankings?

Even a cursory look at the cities that are hot—and those that are not—confirms that the historic shift from Rust Belt to Sun Belt has not yet run its course. The cities at the bottom of our list comprise something of an atlas of industrial America once-proud capitals of coal and ore, auto and steel. By contrast, many of the cities at the top of the list were mere economic backwaters a generation ago peddling cheap labor, cheap land, and cheap government. As a result of their success in attracting big companies and growing their own small ones, these same cities today sell themselves on the basis of beautiful parks, big airports, and well-endowed universities.

The obvious lesson in all this is that it is easier for a city to come from nowhere than to reverse a steep decline. Because smaller companies cluster in the service and retail sectors, it is difficult to start and grow them when corporate customers in town are closing down operations and thousands of potential retail customers are losing their jobs. "For older cities with heavy manufacturing bases, it's going to be a much harder transition to a more entrepreneurial economy," explains John D. Kasarda, an urban-studies expert at the University of North Carolina at Chapel Hill.

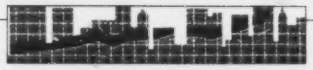
JOB GROWTH #1
START-UPS #1
HIGH-GROWTH START-UPS #2

But it also is clear from our rankings that cities dominated by a single industry or company—even one that is robust—are not conducive to entrepreneurship and small-business growth. In these places, the big companies tend to crowd out the smaller ones for capital, employees, land, and attention. "Sometimes cities stagnate because the big companies don't move out," explains Jane Jacobs, a noted writer on cities. "They create a company-town atmosphere. They become too self-sufficient. . . . If Eastman Kodak, for instance, had moved out of Rochester, N.Y., that city could have become one of the great science cities of the world."

In addition to having a diverse and healthy economic base, the hot cities share two other characteristics. One is a significant government presence: among cities at the top of our list, it is common to have at least a quarter of their working population employed in the public sector. The other is quality. As David Birch points out on page 53, the thriving cities are the ones that have taken pains to improve the quality of their workers, their lifestyles, and their public institutions.

There is no magic formula for urban economic growth, no single model for the

PHOTO BY REAGAN BRADSHAW



METRO RANKING/THE TOP 50

Rank/Area	Growth in Jobs	Business Birthrate	% of Fast-Growing Companies	Total Score
1. Austin, TX	44.3 %	7.3 %	4.7 %	99.22
2. Orlando, FL	40.5	4.2	3.6	73.37
3. Phoenix, AZ	32.3	4.9	3.6	72.72
4. Dallas-Fort Worth, TX	22.4	5.2	4.0	72.23
5. Tucson, AZ	27.3	3.8	4.2	69.31
6. San Antonio, TX	19.9	4.5	4.2	69.02
7. Raleigh-Durham, NC	34.7	3.7	3.6	67.96
8. Manchester-Nashua, NH	24.6	2.7	4.8	67.11
9. Atlanta, GA	30.0	3.9	3.6	66.54
10. Huntsville, AL	35.3	3.7	3.1	64.40
11. Washington, DC	26.5	3.5	3.6	62.82
12. Albuquerque, NM	26.9	2.9	3.8	61.55
13. San Diego, CA	24.9	3.7	3.3	60.67
14. Charleston, SC	20.5	3.3	3.8	60.27
15. Nashville, TN	21.3	3.2	3.8	60.19
16. Jacksonville, FL	25.9	2.9	3.6	59.51
17. Melbourne-Titusville, FL	33.0	2.6	3.1	57.76
18. Tallahassee, FL	23.7	2.9	3.4	56.83
19. El Paso, TX	3.1	5.1	3.3	56.57
20. Portsmouth-Dover, NH	22.4	2.3	3.6	54.77
21. Norfolk-Portsmouth, VA	23.4	3.1	3.0	54.61
22. Fort Myers, FL	30.6	3.2	2.4	54.14
23. Tampa-St. Petersburg, FL	27.7	3.4	2.4	53.67
24. South Bend, IN	13.4	3.1	3.4	52.61
25. Boston, MA	12.7	2.3	3.9	52.13
26. Memphis, TN	15.6	2.5	3.5	51.50
27. Colorado Springs, CO	21.3	3.3	2.6	51.45
28. Sarasota, FL	29.2	2.8	2.4	51.43
29. Denver, CO	9.7	3.7	3.1	51.41
30. Augusta, GA	22.1	2.0	3.3	50.77
31. Pensacola, FL	17.9	3.2	2.6	49.26
32. Wilmington, DE	16.6	2.1	3.4	49.26
33. Sacramento, CA	25.8	2.7	2.4	49.23
34. Fort Wayne, IN	10.0	2.4	3.6	48.96
35. San Francisco, CA	12.0	2.6	3.3	48.63
36. Salt Lake City, UT	14.2	2.8	3.0	48.43
37. Los Angeles, CA	12.1	3.0	3.0	48.38
38. Columbia, SC	21.1	2.9	2.4	47.84
39. Savannah, GA	10.9	2.5	3.3	47.61
40. Columbus, OH	15.2	2.6	2.9	47.19
41. Houston, TX	-8.7	4.4	3.3	47.07
42. Santa Barbara, CA	17.6	2.1	3.0	46.72
43. Baltimore, MD	12.6	2.5	3.0	46.12
44. Kansas City, MO	11.6	2.7	2.9	45.84
45. Baton Rouge, LA	-0.2	3.3	3.2	45.15
46. Bridgeport-Stamford, CT	9.0	2.2	3.3	45.12
47. Las Vegas, NV	11.3	3.5	2.3	45.05
48. Madison, WI	12.2	2.7	2.7	44.62
49. Minneapolis-St. Paul, MN	11.8	2.4	2.9	44.49
50. Detroit, MI	19.8	2.2	2.5	44.46

METRO RANKING/THE BOTTOM 20

Rank/Area	Growth in Jobs	Business Birthrate	% of Fast-Growing Companies	Total Score
135. Allentown-Bethlehem, PA	0.2 %	1.6 %	2.1 %	28.45
136. Flint, MI	4.7	1.9	1.6	28.38
137. Eugene, OR	6.4	1.7	1.6	28.26
138. Utica-Rome, NY	2.5	1.1	2.2	27.87
139. Youngstown, OH	6.2	2.1	2.1	27.69
140. Scranton, PA	5.1	1.4	1.8	27.62
141. Pittsburgh, PA	-6.7	1.9	2.2	27.19
142. Saginaw-Bay City, MI	-2.5	1.6	2.1	27.05
143. Erie, PA	-0.4	1.7	1.8	26.32
144. Reading, PA	5.1	1.3	1.5	24.81
145. Cedar Rapids, IA	2.1	1.4	1.6	24.56
146. Johnstown-Altoona, PA	-1.3	1.5	1.7	24.08
147. Beaumont, TX	-19.3	2.4	2.3	24.05
148. Johnson City, TN	6.5	1.7	1.0	23.68
149. Springfield-Decatur, IL	7.1	1.4	1.1	23.23
150. Charleston, WV	-5.8	2.1	1.4	22.47
151. Davenport, IA	-5.9	1.7	1.5	21.22
152. Huntington, WV	-8.4	1.8	1.4	19.70
153. Peoria, IL	-12.1	1.6	1.0	13.75
154. Duluth, MN	-13.6	1.6	1.1	13.74

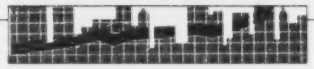
HOW THE CITIES WERE RANKED Like our annual states report, this ranking of metropolitan areas is based on three factors: job generation, rate of significant new business start-ups, and the percent of young companies enjoying high growth rates. For each factor, each metropolitan area was assigned a score from 1 to 33.33 reflecting its relative standing among all cities in the United States: the overall rank of a city was based on the sum of the three scores, with 100 as the highest possible score.

Metropolitan areas were defined as counties or groups of counties closely related by commuting patterns. In general, a densely settled suburban county was grouped with an urban county if 15% of its residents reported working in the city. By this method, 89% of the metropolitan areas corresponded to the metropolitan statistical areas used by the federal government.

Job data were supplied by the U.S. Bureau of Labor Statistics for private and civilian public-sector employment gains or losses between November 1981 and November 1985. Data on companies were compiled by Cognetics Inc., in Cambridge, Mass.

The rate of significant new business births was derived by dividing the total number of business establishments in an area by the number of companies founded since 1982 that had 10 or more employees by January 1986. The number of high-growth companies was figured as a percentage of all companies founded since 1978. For each company, an index was calculated by multiplying its absolute growth in employment between 1982 and 1986 by its percentage of employment growth during the same period. Figuring growth in this way eliminated any bias in favor of large companies (which might have high absolute numbers) or small ones (which might have high percentages of change). Companies with an index of 20 or higher were classified as high growth.

INC.'s metro rankings were prepared under the direction of special projects editor Sara Baer-Sinnott. For information on reprints, call Elizabeth Longsworth at (800) 372-0018.



entrepreneurial city. But from our list of top cities we have identified six broad groupings:

☐ **Bureaucrats and Brains.** The rhyming duo of Austin (#1) and Boston (#25) is the premier example of what happens when government headquarters and world-class research universities are located in the same place. In the Massachusetts version, the universities are private; in Texas, it is public. In each case, the university payroll is substantial and the high-tech spin-off is the envy of the nation. And should high tech turn soft, as it has recently in Austin, the capital cities in this category rely on government to cushion the blow—not through subsidies, but through steady, high-paying jobs that support a thriving retail sector. Raleigh-Durham, N.C. (#7), with its Research Triangle Park, fits in this category, followed less dramatically by Ohio's Columbus (#40) and Wisconsin's Madison (#48). Unlike those cities, Colorado Springs, Col. (#27), is not a state capital, but it makes up for state spending with the U.S. Air Force Academy, the U.S. Space Command, the Air Force Space Command, and the North American Aerospace Defense Command.

☐ **Megalopolises.** Some of the cities at the top of our list will claim a unique business climate explains their growth, but one has the nagging suspicion that geographical accident is somehow involved. The classic case is the Bridgeport-Stamford section of Connecticut (#46), once the center of corporate flight from Manhattan that has since been clever enough to capitalize on the opportunity. Today, hundreds of businesses and professional firms have sprung up to serve or be near the corporate émigrés, as have restaurants to feed their executives, construction companies to build their plush offices, and commuter airlines to shuttle in their customers.

In somewhat the same way, one can understand the phenomenal growth of Baltimore (#43), Wilmington, Del. (#32), and Norfolk-Portsmouth, Va. (#21), on the periphery of debt-fueled Washington, D.C. (#11); or Manchester-Nashua (#8) and Portsmouth-Dover (#20), N.H., which have accepted hungrily the manufacturing spillover of Boston's high-tech boom; or California's San Diego (#13) and Santa Barbara (#42), which are more beautiful places in which to live and start a business than nearby Los Angeles (#37).

☐ **Regional Capitals.** For long-run performance, our money is on these second-tier cities whose long-established roots in all sectors of the economy allow steady growth even during droughts and floods. These are centers for government, finance, and transportation, homes to major universities, and regional headquarters to major national corporations. Manufacturing is high paying and increasingly high tech. During the early 1980s, construction and real estate were very hot. Now, retail trade is thriving and disproportionately high end.

In this category, such cities as Atlanta (#9), Denver (#29), Kansas City, Mo. (#44), and Minneapolis-St. Paul (#49) have long histories of regional dominance. While San Francisco (#35), by several measures, has lost ground to Los Angeles, it has made up for its losses with a thriving new artisan economy that is profiled on page 56. Salt Lake City (#36) has the advantage of being a religious as well as an economic and political capital, and the tithing customs of the Mormon church have helped to keep much of Salt Lake City's wealth invested right at home. If any city has created a regional capital where neither history nor geography would have predicted it, it is Dallas-Fort Worth (#4), where defense contracting is an art, the airport reigns supreme, and huge trade marts have given new meaning to wholesaling.

Cities dominated by a single industry or company—even a thriving one—are not conducive to entrepreneurship and small-business growth.

☐ **Frontier Towns.** Usually construction, real estate, and retail sales follow in the wake of economic growth, accelerating its pace, but in the dusty cities of the old Southwest it seems as if they have been leading the charge. The one thing you notice today about Phoenix (#3), Tucson (#5), San Antonio (#6), and Albuquerque (#12) is the phenomenal pace of each city's expansion into the deserts and up into the mountains. Yet if they all are entrepreneurial boomtowns today, it is probably thanks to technology giants such as Datapoint and Fairchild Industries (San Antonio), Digital Equipment and Intel (Albuquerque), Unisys, Honeywell, and Motorola (Phoenix), all of which built production facilities in the Southwest many years ago. Good climate and cheap land were the drawing cards back then, for corporations and retirees alike. But don't forget that these cities also owe much of their growth to the government: Phoenix, its state offices and its federally subsidized water system; Tucson, its state university; San Antonio, its nearby military bases; and Albuquerque, its air-force base and the Sandia National Laboratories.

☐ **One-Industry Towns.** Say Huntsville, Ala. (#10) or Melbourne-Titusville, Fla. (#17), and you mean the space program. Say Houston (#41) and Baton Rouge (#45), and you mean oil. These cities rise and fall with the fate of a single industry, and until 1985, at least, they were up. Also in this category is Detroit, just making the cut at #50 in our rankings, thanks in part to the billions of dollars invested by struggling car manufacturers in new designs and new technology that have trickled down to the smaller companies. Perhaps most impressive in this category is Memphis (#26), the city that has made its money transporting and trading the goods that other cities produce, be it in the era of the riverboat, the train, or the Federal Express Corp. jet.

☐ **Retreats.** Although they have become much more than simply retirement communities and vacation spots, Las Vegas (#47) and the Florida cities of Fort Myers (#22), Sarasota (#28), and Pensacola (#31) might never have spawned so many growing new companies but for the buying power of tourists and old ladies. Even before retirees arrived by car and plane in Jacksonville, Fla. (#16), cargo arrived by ship, and today the deep-water port, along with the insurance industry, continues to drive that city's phenomenal rate of growth. Perhaps the stellar performer in Florida, however, is #2 Orlando, which in just 15 years has gone from being home to Mickey, Minnie, and Donald to being a home, as well, to such high-tech performers as AT&T Technology Systems, Harris, Litton Laser Systems, United Technologies, and Westinghouse.

In the category of surprises on our list of top metropolitan areas, we count the Old South cities of Savannah (#39) and Augusta (#30), Ga., and Columbia (#38) and Charleston (#14), S.C., where tourists and the Pentagon are big spenders. Among the declining industrial cities that have made entrepreneurial comebacks, two are in Indiana: South Bend (#24), which once relied on Studebaker Corp. for most of its jobs but now looks to the University of Notre Dame for much of its enterprise; and Fort Wayne (#34), which declined with International Harvester but went on to revival with Magnavox, General Electric, and General Motors.

Conspicuously absent from the list of hot cites are New York (#81) and Chicago (#106), still generators of jobs but not young companies. In that respect, they must tip their hats to the more vibrant Los Angeles (#37), which has shown that entrepreneurship can thrive even in the largest cities. *—Steven Pearlstein*

Research assistance was provided by Sarah Clifford.